

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 7331

BILL NUMBER: HB 1478

NOTE PREPARED: Feb 15, 2007

BILL AMENDED:

SUBJECT: Personal property tax audits.

FIRST AUTHOR: Rep. Kuzman

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires county assessors to implement a personal property tax return audit program for taxpayers whose personal property is at least \$50,000 in true tax value. It requires township assessors to provide copies of the personal property tax returns of taxpayers whose personal property is at least \$50,000 in true tax value to the county assessor at the county assessor's request. The bill also authorizes the payment from a county's reassessment fund of costs and fees related to a contract for the discovery of property that has been undervalued or omitted from assessment.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Audit Program:* The audit program is described in the *Explanation of Local Expenditures*. Under current law, township assessors must forward copies of all personal property tax returns with AV exceeding \$150,000 to the county assessor. The county assessor must forward these returns to the DLGF. The DLGF is required to review all returns with an AV of \$150,000 or more to determine if any assessments are improper.

This proposal requires county assessors to audit property tax returns with AV of at least \$50,000. Counties may choose to contract out the audit function. The proposal directs DLGF to adopt rules to certify persons who wish to obtain an audit contract. The bill also requires the DLGF to perform audits in those counties that fail to do so. The DLGF may do so using its own resources or use a contractor. If the DLGF chooses to issue a contract, the cost of the contract will be borne by the counties that originally failed to implement their own audit program.

Secondary Impact: *(PTRC and Homestead Credits):* The state pays Property Tax Replacement Credits

(PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits could vary. The amount of the increase or decrease would depend on how successful the audit program is in identifying undervalued personal property.

Explanation of State Revenues:

Explanation of Local Expenditures: *Audit Program:* Under current law, the township assessor, or their contractor, is required to examine and verify the accuracy of each personal property return and, if appropriate, compare the return to the taxpayer's books. Township assessors must forward copies of all personal property tax returns with AV exceeding \$150,000 to the county assessor. The county assessor forwards these returns to the DLGF. The auditor may create a special nonreverting fund in which to deposit additional taxes from under-assessed valuations and from which the contractor is to be paid. If the amount of money in the fund is not sufficient to meet current contract costs, the auditor may pay the remaining fees and costs from the county's reassessment fund. In CY 2006, the certified levy amount in this fund for 91 of 92 counties was about \$17 M.

This proposal requires township assessors, at the county assessor's request, to forward copies of all personal property tax returns with at least \$50,000 AV to the county assessor. The county assessor is required to audit each of these returns at least once every five years to include verifying the accuracy of the return and comparing the return to the taxpayer's books. The assessor will notify the taxpayer in writing that the taxpayer's returns will be audited and the years over which the audit will cover. The audit, itself, is limited to returns from the prior three assessment years.

The bill requires county assessors to have a program in place by June 30, 2008. Assessors have the option of contracting out the audit program. If a county fails to implement an audit program, this bill requires the DLGF to do so. The DLGF may also choose to contract out the program with the costs paid out of that county's reassessment fund. A taxpayer who was audited by a contractor in CY 2005 and CY 2006 cannot be audited again until CY 2009.

Those counties which do not already have an audit program would incur the cost of either implementing or contracting out the program. However, this would be offset by the increase in potential revenues they may gain from discovering under-valued property. The bill requires counties to finance the program, in part, out of its reassessment fund but the impact will not be the same for every county. For example, twenty-two counties have no personal property taxpayers that currently meet the \$50,000 true tax value threshold criteria; of the remaining 70 counties, the number of eligible taxpayers range from a low of 55 to a high of 10,700 with a median of 480. On an annual basis the number of audits performed would range from approximately 11 to about 2,150.

Background: According to the DLGF, there is a contractor available who, as of September 2005, has completed audits for about 13 counties. Using Census data, this contractor estimated that there are potentially 67,000 returns that meet this bill's \$50,000 true tax value threshold, and so far it has audited approximately eight percent of this total. Contract costs and fees were approximately \$5.5M for these counties. The contractor estimates statewide under-assessment at approximately \$5.3 B, and cost projection of

approximately \$61.5 M annually to audit these returns. (These costs could be offset by increased revenue collections. See *Explanation of Local Revenues*.)

The contractor classifies and set the audit fees based on the AV in the return. The table below has the fee schedule for audits completed in Marion County in 2004.

Assessed True Tax Value	Audit Fee
\$50,000 - \$399,999	\$700
\$400,000 - \$999,999	\$1,400
\$1,000,000 - \$4,999,999	\$2,200
\$5,000,000 - \$19,999,999	\$6,000
Over \$20,000,000	\$10,000

Explanation of Local Revenues: An examination of parcel-level data indicates that there are currently approximately 57,000 taxpayers whose personal property true tax value is above the \$50,000 threshold. Since this number is 10,000 less than the contractor's estimate, one can assume that the range of eligible taxpayers falls between 57,000 and 67,000.

Under this proposal a net increase in the tax base because of reassessing under-valued properties upward will cause a tax shift from these previous under-valued property to all other property in the form of a decreased tax rate. On the other hand, a net decrease in the tax base because of reassessing over-valued property downward will cause the tax base to shrink. The amount of the tax shift and the change in the tax rate is indeterminable at this time.

The amount of additional revenue counties may potentially gain from this program would depend on the amount of under-assessed value the audits discover.

Background: After auditing eight percent of eligible returns in 2005, the contractor discovered approximately \$478 M in under-assessed value, which resulted in a net positive revenue for the counties of approximately \$12 M after subtracting out contract fees. The contractor estimates state-wide under-assessment at approximately \$5.3 B with a projected net positive revenue to the counties of \$132 M.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County assessors; Township assessors; County auditors.

Information Sources: Local database; J. Barry Wood, Director, Assessment Division, DLGF, 317-232-3773.

Fiscal Analyst: David Lusan, 317-232-9592.